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C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001031

SIPDIS

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SUBJECT: ONE HONDURAN PRIVATE SECTOR GROUP PANICKING IN  
FACE OF CAFTA DELAYS

Classified By: EconChief PDunn for reason 1.4(b,d)

1. (U) This is an action request -- please see para 7.

2. (C) Following publication here of reports of the CAFTA Presidents' 05/12/05 CNN interview, in which they indicated there is no "Plan B" if the U.S. Congress fails to ratify CAFTA, EconChief received a worried phone call from a prominent business leader. Adolfo "Fito" Facusse, President of the Honduran Industrial Association (ANDI) and Vice-President of the Latin American Industrial Association, told Post that he remains a staunch supporter of CAFTA, but that he is very concerned about the apparent lack of impact on ratification prospects of the recent CAFTA Presidents, visit.

3. (C) Facusse told EconChief that at its upcoming 5/17/05 meeting, ANDI is contemplating issuing a statement calling for sharp retrenchment if CAFTA does not pass in the U.S. He said the Association would call for imposition of 35% tariffs on imports, to be imposed immediately, and only to be lifted when a Free Trade Agreement is signed along with an agreement for 500,000 temporary work permits. ANDI would also call for immediate initiation of FTA talks with Brazil and the EU.

4. (C) Facusse said this measure is intended to support CAFTA ratification by demonstrating that a failure to ratify would lead to dire consequences for the U.S. He also said that such a step would remind public and private sector officials in the U.S. that the Central American market is not a birthright, but could be lost to Brazilian or EU competitors.

5. (C) EconChief stressed to Facusse that such an approach would be short-sighted, would harm Honduran interests in both the short and long terms, and could harm rather than bolster ratification prospects for CAFTA. Those who oppose CAFTA on sovereignty grounds would see this as proof of their fears and could further harden their stance. Those concerned about Central American dedication to free trade would see the threat of a sharp protectionist move as evidence that dedication to free trade is superficial and cannot be counted upon. Threatening the U.S. Congress, we told him, is unlikely to be a wise or productive strategy.

6. (C) Moreover, such a move would be premature. It is too soon to see the real results of the CAFTA Presidents' visit, but early indications are of a public success. Further, CAFTA has not been formally introduced into Congress, and once it is, there will be an additional 60 days in which ANDI can lobby for ratification. Therefore, EconChief told Facusse to strongly encourage ANDI not to do anything precipitous or rash. Statements of support for CAFTA are legitimate and welcome, but threats and brinksmanship are not. By the end of our conversation, Facusse was persuaded to soften his stance substantially and agreed to consult with us prior to making any such declaration. That said, Facusse continues to harbor three significant concerns: (1) As a textile manufacturer, Facusse is intensely aware that without CAFTA, the PRC will erode his market-share and eventually drive him out of business. (2) Facusse is concerned that a failed ratification vote for CAFTA would lead to a political retaliation and a "wave of protectionism." (3) Finally, Facusse noted that Brazil has long held a different vision for regional trade (starting with a Brazil-dominated trading bloc), and this alternative would likely gain adherents if CAFTA were to fail.

7. (C) Comment and Action Request: We think we have talked Facusse back off the ledge, but we will follow-up with him again on Monday, prior to the ANDI meeting to reinforce our unequivocal message. In our view Facusse remains a strong supporter of CAFTA and seems to genuinely believe that his threat of trade war would advance the cause of ratification. His reaction is not representative of the broader Honduran private sector, but he is an influential and highly visible personality. Should he choose to stake out such a position, he could garner significant media coverage and potentially do real harm to the CAFTA ratification effort in the U.S. that

he seeks to support. We will do our utmost to prevent such an eventuality. ANDI's impulse to speak out in favor of CAFTA, however, is laudable, and we would welcome Department guidance on what message from the Honduran private sector would most effectively support their goal of CAFTA ratification. End Comment.

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